

CITY OF MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008



Vredeveld Haefner LLC

CITY OF MUSKEGON HEIGHTS

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INDEPENDENT AUDITORS' REPORT

September 3, 2009

Honorable Mayor and Members of the City Council
City of Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muskegon Heights, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Muskegon Heights, Michigan as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 3, 2009, on our consideration of Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 and the required supplementary information on pages 43 and 44 are not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principals in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon Heights' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon Heights. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Ordetaxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Muskegon Heights (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide this significant key financial highlight for the 2008 fiscal year as follows:

- The City raised water rates in April 2008
- The City has been awarded federal and state grants for reconstruction of Mona Lake Park and blight elimination
- Additional grants were received for street reconstruction and replacement of street signs

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and streets, community development, and culture and recreation. The business-type activities of the City include sewer, water, and water supply operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for which the City is financially accountable. The Brownfield Redevelopment Authority was formed in prior years and no financial activity or balances are reported for 2008. Information for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its General Fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the major funds to demonstrate legal compliance.

Proprietary funds The City maintains one type of proprietary fund (Enterprise funds). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, and water supply operations. The City does not use internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water, and water supply operations, all of which are considered to be major funds of the City.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. This is limited to this discussion and analysis and combining statements and schedules.

Government-wide Financial Analysis

Statement of Net Assets As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$12,615,975 at the close of the most recent fiscal year. The following chart illustrates the composition of net assets.

City of Muskegon Heights Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$2,636,517	\$3,112,561	\$5,550,668	\$5,906,452	\$8,187,185	\$9,019,013
Capital assets	7,779,561	8,763,852	20,463,039	20,865,269	28,242,600	29,629,121
Total assets	10,419,078	11,876,413	26,013,707	26,771,721	36,432,785	38,648,134
Liabilities						
Current liabilities	2,414,182	2,672,821	725,619	969,155	3,139,801	3,641,976
Long-term liabilities	3,541,635	2,884,203	17,135,374	17,004,172	20,677,009	19,888,375
Total liabilities	5,955,817	5,557,024	17,860,993	17,973,327	23,816,810	23,530,351
Net assets						
Invested in capital assets, net of related debt	5,978,745	7,185,349	5,100,414	5,018,511	11,079,159	12,203,860
Restricted	484,079	803,180	2,103,113	2,099,445	2,587,192	2,902,625
Unrestricted	(1,999,563)	(1,669,140)	939,187	1,680,438	(1,060,376)	11,298
Total net assets	\$4,463,261	\$6,319,389	\$8,152,714	\$8,798,394	\$12,615,975	\$15,117,783

By far the largest portion of the City's net assets in the amount of 87% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets in the amount of 20% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$(1,060,376), or (7)%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for business-type activities. Governmental-type activities and the city as a whole reported negative unrestricted net assets at year end.

Statement of Activities The City's total revenue for the fiscal year ended December 31, 2008, was \$13,674,666. The total cost of all programs and services was \$16,176,474 of which \$2,082,206 represents depreciation expense. This results in a net asset decrease at the end of the fiscal year of \$2,501,808. The following table presents a summary of the changes in net assets for the year ended December 31. Certain revenues, expense, and transfers have been classified differently in 2008 than in 2007.

City of Muskegon Heights Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$1,311,335	\$1,319,646	\$5,335,765	\$4,342,912	\$6,647,100	\$5,662,558
Operating grants and contributions	1,712,255	1,464,738	-	-	1,712,255	1,464,738
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes	2,460,573	2,329,922	-	-	2,460,573	2,329,922
Income taxes	991,216	1,059,604	-	-	991,216	1,059,604
State shared revenues	1,756,353	1,736,585	-	-	1,756,353	1,736,585
Investment earnings	10,749	18,007	96,420	118,750	107,169	136,757
Other	-	-	-	-	-	-
Total revenues	8,242,481	7,928,502	5,432,185	4,461,662	13,674,666	12,390,164
Expenses						
General government	1,546,318	1,518,230	-	-	1,546,318	1,518,230
Public safety	4,362,246	4,005,702	-	-	4,362,246	4,005,702
Public works and streets	3,096,472	2,910,539	-	-	3,096,472	2,910,539
Culture and recreation	325,624	299,427	-	-	325,624	299,427
Community Development	870,428	635,218	-	-	870,428	635,218
Interest on long-term debt	142,521	98,383	-	-	142,521	98,383
Sewer	-	-	1,104,672	878,046	1,104,672	878,046
Water	-	-	1,442,960	1,026,175	1,442,960	1,026,175
Water Supply	-	-	3,285,233	2,736,780	3,285,233	2,736,780
Total expenses	10,343,609	9,467,499	5,832,865	4,641,001	16,176,474	14,108,500
Increase (decrease) before transfers	(2,101,128)	(1,538,997)	(400,680)	(179,339)	(2,501,808)	(1,718,336)
Transfers in (out)	245,000	269,483	(245,000)	(269,483)	-	-
Increase (decrease) in net assets	(1,856,128)	(1,269,514)	(645,680)	(448,822)	(2,501,808)	(1,718,336)
Net assets – beginning	6,319,389	7,588,903	8,798,394	9,247,216	15,117,783	16,836,119
Net assets – ending	\$4,463,261	\$6,319,389	\$8,152,714	\$8,798,394	\$12,615,975	\$15,117,783

Governmental Activities The preceding table shows that the governmental activities decreased the City's net assets by \$1,856,128 during this fiscal year, accounting for approximately 74% of the total decrease in net assets. This decrease is primarily the result of depreciation on capital assets.

Business-type Activities Business-type activities decreased the City's net assets by \$645,680, or approximately 26% of the total decline in the City's net assets.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$(47,881) a decrease of \$738,663 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the entire fund balance of the general fund of \$(461,725) was unreserved and undesignated. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents a negative balance in the general fund at year end.

The fund balance of the general fund decreased by \$471,117, during the current fiscal year. The change in fund balance is highly dependent on the level of transfers made to and received from other funds.

Proprietary funds The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City of Muskegon Heights' enterprise operations consist of three separate and distinct activities. The sewer, water and water supply funds provide service to most residents and businesses of the City. The sewer and water supply funds experienced declines in net assets of \$474,326 and \$226,051 respectively while the water fund increased net assets by \$54,697.

General Fund Budgetary Highlights

Differences between the general fund original and final amended budgets were primarily the result of the increased public safety costs and increasing costs of health insurance premiums.

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of December 31, 2008, amounted to \$28,242,600 (net of accumulated depreciation). Of this amount, \$7,779,561 was for its governmental type activities and \$20,463,039 was for its business-type activities. This investment in capital assets includes land, buildings and equipment, vehicles and infrastructure.

Major capital asset events during the current fiscal year included primarily improvements made at the water plant accounted for in the water supply fund.

Additional information on the City's capital assets can be found in Note 7 of this report.

Long-term debt At the end of the current fiscal year, the City had total long-term debt outstanding of \$20,677,009. Of this amount, \$3,541,635 was for governmental activities while \$17,135,374 was for business type activities.

The City's total long-term debt decreased by \$319,590 during the current fiscal year.

Additional information on the City's long-term debt can be found on Note 10 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2008 fiscal year

- The City expects lower income tax and property tax revenues due to loss of businesses within the city.
- The City's unemployment rate is higher than the state's average unemployment rate due in part to the struggling manufacturing base in the State of Michigan.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director, City of Muskegon Heights, 2724 Peck Street, Muskegon Heights, MI 49444.

BASIC FINANCIAL STATEMENTS

CITY OF MUSKEGON HEIGHTS

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Downtown Development Authority
	Activities	Activities		
Assets				
Cash and pooled investments	\$ 901,080	\$ 3,524,947	\$ 4,426,027	\$ 310,480
Receivables				
Accounts	209,173	590,788	799,961	-
Property taxes	566,012	-	566,012	120,910
Income taxes	231,844	-	231,844	-
Special assessment receivable	168,601	-	168,601	-
Due from other governments	1,019,569	-	1,019,569	104,698
Inventory	85,073	94,161	179,234	-
Prepaid items	588	-	588	-
Due to agency funds/internal balances	(570,014)	(296,603)	(866,617)	-
Capital assets				
Land	254,408	40,012	294,420	294,635
Depreciable capital assets, net	7,525,153	20,423,027	27,948,180	539,530
Bond issuance costs	27,591	1,637,375	1,664,966	-
Total assets	<u>10,419,078</u>	<u>26,013,707</u>	<u>36,432,785</u>	<u>1,370,253</u>
Liabilities				
Accounts payable	849,493	551,414	1,400,907	15,064
Accrued liabilities	208,882	174,205	383,087	8,560
Due to other governments	108,721	-	108,721	26,282
Unearned revenue	1,247,086	-	1,247,086	177,555
Noncurrent liabilities				
Other post employment benefits	397,106	106,563	503,669	-
Due within one year	481,377	513,264	994,641	128,622
Due in more than one year	2,663,152	16,515,547	19,178,699	388,716
Total liabilities	<u>5,955,817</u>	<u>17,860,993</u>	<u>23,816,810</u>	<u>744,799</u>
Net assets				
Invested in capital assets, net of related debt	5,978,745	5,110,414	11,089,159	316,827
Restricted for				
Capital improvements	21,577	-	21,577	-
Debt service	4,348	2,103,113	2,107,461	-
Major streets	199,953	-	199,953	-
Local streets	(145,798)	-	(145,798)	-
Cemetery perpetual care	383,013	-	383,013	-
Brownfield project	20,986	-	20,986	-
Unrestricted (deficit)	(1,999,563)	939,187	(1,060,376)	308,627
Total net assets	<u>\$ 4,463,261</u>	<u>\$ 8,152,714</u>	<u>\$ 12,615,975</u>	<u>\$ 625,454</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue
			Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 1,546,318	\$ 818,595	\$ -	\$ -	\$ (727,723)
Public safety	4,362,246	293,533	130,761	-	(3,937,952)
Public works and streets	3,096,472	74,953	799,809	-	(2,221,710)
Culture and recreation	325,624	86,293	-	-	(239,331)
Community development	870,428	37,961	781,685	-	(50,782)
Interest on long-term debt	142,521	-	-	-	(142,521)
Total governmental activities	10,343,609	1,311,335	1,712,255	-	(7,320,019)
Business-type activities					
Sewer	1,104,672	698,550	-	-	(406,122)
Water	1,442,960	1,575,990	-	-	133,030
Water supply	3,285,233	3,061,225	-	-	(224,008)
Total business-type activities	5,832,865	5,335,765	-	-	(497,100)
Total primary government	<u>\$ 16,176,474</u>	<u>\$ 6,647,100</u>	<u>\$ 1,712,255</u>	<u>\$ -</u>	<u>\$ (7,687,119)</u>
Component units					
Downtown Development Authority	\$ 279,323	\$ 75,495	\$ -	\$ -	\$ (203,828)
Total component units	<u>\$ 279,323</u>	<u>\$ 75,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (203,828)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Development</u>
				<u>Authority</u>
Changes in net assets				
Net (expense) revenue	\$ (7,320,019)	\$ (497,100)	\$ (7,817,119)	\$ (203,828)
General revenues				
Property taxes	2,460,573	-	2,460,573	367,512
Income taxes	991,216	-	991,216	-
State shared revenues - unrestricted	1,756,353	-	1,756,353	-
Interest earnings	10,749	96,420	107,169	6,386
Transfers - internal activities	<u>245,000</u>	<u>(245,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>5,463,891</u>	<u>(148,580)</u>	<u>5,315,311</u>	<u>372,898</u>
Change in net assets	(1,856,128)	(645,680)	(2,501,808)	169,070
Net assets, beginning of year	<u>6,319,389</u>	<u>8,798,394</u>	<u>15,117,783</u>	<u>456,384</u>
Net assets, end of year	<u>\$ 4,463,261</u>	<u>\$ 8,152,714</u>	<u>\$ 12,615,975</u>	<u>\$ 625,454</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 484,178	\$ 416,902	\$ 901,080
Receivables			
Accounts	177,909	31,264	209,173
Property taxes	566,012	-	566,012
Income taxes	231,844	-	231,844
Special assessment	-	168,601	168,601
Due from other funds	53,795	328,495	382,290
Due from other governments	683,749	335,820	1,019,569
Inventory	20,073	-	20,073
Prepaid items	588	-	588
Total assets	<u>\$ 2,218,148</u>	<u>\$ 1,281,082</u>	<u>\$ 3,499,230</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 578,037	\$ 271,456	\$ 849,493
Accrued liabilities	171,965	18,427	190,392
Due to other funds	599,321	352,983	952,304
Due to other governments	108,303	418	108,721
Deferred revenue	1,222,247	223,954	1,446,201
Total liabilities	<u>2,679,873</u>	<u>867,238</u>	<u>3,547,111</u>
Fund balances (deficit)			
Unreserved			
Undesignated	(461,725)	-	(461,725)
Undesignated reported in nonmajor			
Special revenue funds	-	387,919	387,919
Capital projects funds	-	21,577	21,577
Debt service fund	-	4,348	4,348
Total fund balances (deficit)	<u>(461,725)</u>	<u>413,844</u>	<u>(47,881)</u>
Total liabilities and fund balances	<u>\$ 2,218,148</u>	<u>\$ 1,281,082</u>	<u>\$ 3,499,230</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

DECEMBER 31, 2008

Fund balances - total governmental funds	\$ (47,881)
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	254,408
Add - capital assets (net of accumulated depreciation)	7,525,153
Certain assets do not represent current expendable financial resources and therefore are not recognized in the funds.	
Add - houses held in inventory	65,000
Add - bond issuance costs	27,591
Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - deferred revenue	199,115
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(363,713)
Deduct - other post employment benefits	(397,106)
Deduct - bonds payable	(2,780,816)
Deduct - accrued interest on bonds payable	<u>(18,490)</u>
Net assets of governmental activities	<u>\$ 4,463,261</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Taxes			
Property	\$ 2,460,573	\$ -	\$ 2,460,573
Income	991,216	-	991,216
Intergovernmental revenues			
Federal	-	622,446	622,446
State	1,887,114	911,048	2,798,162
Other	48,000	-	48,000
Licenses and permits	120,202	-	120,202
Charges for services	594,414	170,311	764,725
Fines	60,843	14	60,857
Interest earnings	9,960	31,915	41,875
Miscellaneous	<u>238,582</u>	<u>64,725</u>	<u>303,307</u>
Total revenues	<u>6,410,904</u>	<u>1,800,459</u>	<u>8,211,363</u>
Expenditures			
Current			
General government	2,013,376	175,947	2,189,323
Public safety	3,696,822	-	3,696,822
Public works and streets	951,721	972,593	1,924,314
Community development	12,254	761,502	773,756
Culture and recreation	147,793	126,377	274,170
Debt service			
Principal	91,346	221,378	312,724
Interest	<u>52,705</u>	<u>77,330</u>	<u>130,035</u>
Total expenditures	<u>6,968,017</u>	<u>2,335,127</u>	<u>9,303,144</u>
Revenues over (under) expenditures	<u>(555,113)</u>	<u>(534,668)</u>	<u>(1,089,781)</u>
Other financing sources (uses)			
Issuance of debt	76,828	26,634	103,462
Sale of capital assets	2,656	-	2,656
Transfers in	259,613	538,765	798,378
Transfers out	<u>(255,101)</u>	<u>(298,277)</u>	<u>(553,378)</u>
Total other financing sources (uses)	<u>83,996</u>	<u>267,122</u>	<u>351,118</u>
Net changes in fund balances	(471,117)	(267,546)	(738,663)
Fund balances, beginning of year	<u>9,392</u>	<u>681,390</u>	<u>690,782</u>
Fund balances, end of year	<u>\$ (461,725)</u>	<u>\$ 413,844</u>	<u>\$ (47,881)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Net changes in fund balances - total governmental funds	\$ (738,663)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	179,784
Deduct - depreciation expense	(1,164,074)

Certain accounts receivable are long-term in nature and are collectable over several years. However the current portions are reflected as revenues on the fund statements.

Deduct - current portion of long-term receivables	28,462
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Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - issuance of long-term debt	(103,462)
Add - payments on long-term debt	312,724

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	38,693
Deduct - other post employment benefits	(397,106)
Deduct - amortization of bond issuance costs	(6,035)
Deduct - changes in accrued interest	(6,451)

Change in net assets of governmental activities	<u>\$ (1,856,128)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

DECEMBER 31, 2008

Assets	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Current assets				
Cash and pooled investments	\$ 279,841	\$ 235,288	\$ 906,705	\$ 1,421,834
Accounts receivable	182,534	358,596	49,658	590,788
Due from other funds	-	19,212	-	19,212
Inventory	-	59,989	34,172	94,161
Total current assets	<u>462,375</u>	<u>673,085</u>	<u>990,535</u>	<u>2,125,995</u>
Noncurrent assets				
Capital assets				
Land	2,246	-	37,766	40,012
Infrastructure and plant	3,679,810	2,147,165	26,412,283	32,239,258
Less accumulated depreciation	<u>(2,175,927)</u>	<u>(1,754,487)</u>	<u>(7,885,817)</u>	<u>(11,816,231)</u>
Net capital assets	1,506,129	392,678	18,564,232	20,463,039
Restricted cash and pooled investments	-	-	2,103,113	2,103,113
Bond issuance costs and discount	-	-	<u>1,637,375</u>	<u>1,637,375</u>
Total noncurrent assets	<u>1,506,129</u>	<u>392,678</u>	<u>22,304,720</u>	<u>24,203,527</u>
Total assets	<u>1,968,504</u>	<u>1,065,763</u>	<u>23,295,255</u>	<u>26,329,522</u>
Liabilities				
Current liabilities				
Accounts payable	207,733	45,295	298,386	551,414
Accrued liabilities	4,000	22,922	147,283	174,205
Due to other funds	221,801	-	94,014	315,815
Current portion of long-term debt	<u>5,795</u>	<u>10,176</u>	<u>497,293</u>	<u>513,264</u>
Total current liabilities	<u>439,329</u>	<u>78,393</u>	<u>1,036,976</u>	<u>1,554,698</u>
Long-term liabilities				
Other post employment benefits	29,430	32,799	44,334	106,563
Long-term debt, net of current portion	<u>1,602</u>	<u>3,302</u>	<u>16,510,643</u>	<u>16,515,547</u>
Total long-term liabilities	<u>31,032</u>	<u>36,101</u>	<u>16,554,977</u>	<u>16,622,110</u>
Total liabilities	<u>470,361</u>	<u>114,494</u>	<u>17,591,953</u>	<u>18,176,808</u>
Net assets				
Investment in capital assets net of related debt	1,506,129	392,678	3,211,607	5,110,414
Restricted for debt service	-	-	2,103,113	2,103,113
Unrestricted	<u>(7,986)</u>	<u>558,591</u>	<u>388,582</u>	<u>939,187</u>
Total net assets	<u>\$ 1,498,143</u>	<u>\$ 951,269</u>	<u>\$ 5,703,302</u>	<u>\$ 8,152,714</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Operating revenue				
Charges for services	\$ 662,889	\$ 1,528,535	\$ 1,860,611	\$ 4,052,035
Fines	35,651	50,207	5,031	90,889
Charges for debt service	<u>10</u>	<u>-</u>	<u>1,195,583</u>	<u>1,195,593</u>
Total operating revenue	<u>698,550</u>	<u>1,578,742</u>	<u>3,061,225</u>	<u>5,338,517</u>
Operating expense				
Personnel services	114,346	194,454	346,229	655,029
Benefits	142,329	164,664	283,245	590,238
Contractual/professional services	699,984	893,672	452,924	2,046,580
Materials and supplies	21,687	87,958	186,757	296,402
Utilities	890	42,379	338,528	381,797
Repair and maintenance	20,714	3,657	28,756	53,127
Depreciation	74,754	31,746	811,632	918,132
Miscellaneous	<u>27,177</u>	<u>27,182</u>	<u>18,154</u>	<u>72,513</u>
Total operating expense	<u>1,101,881</u>	<u>1,445,712</u>	<u>2,466,225</u>	<u>5,013,818</u>
Operating income (loss)	<u>(403,331)</u>	<u>133,030</u>	<u>595,000</u>	<u>324,699</u>
Non-operating revenue (expense)				
Interest income	11,796	6,667	77,957	96,420
Interest expense	<u>(2,791)</u>	<u>-</u>	<u>(819,008)</u>	<u>(821,799)</u>
Total non-operating revenue (expense)	<u>9,005</u>	<u>6,667</u>	<u>(741,051)</u>	<u>(725,379)</u>
Income (loss) before transfers	<u>(394,326)</u>	<u>139,697</u>	<u>(146,051)</u>	<u>(400,680)</u>
Transfers				
Transfers in	-	-	-	-
Transfers out	<u>(80,000)</u>	<u>(85,000)</u>	<u>(80,000)</u>	<u>(245,000)</u>
Total transfers	<u>(80,000)</u>	<u>(85,000)</u>	<u>(80,000)</u>	<u>(245,000)</u>
Changes in net assets	<u>(474,326)</u>	<u>54,697</u>	<u>(226,051)</u>	<u>(645,680)</u>
Net assets, beginning of year	<u>1,972,469</u>	<u>896,572</u>	<u>5,929,353</u>	<u>8,798,394</u>
Net assets, end of year	<u>\$ 1,498,143</u>	<u>\$ 951,269</u>	<u>\$ 5,703,302</u>	<u>\$ 8,152,714</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 722,828	\$ 1,547,837	\$ 3,083,208	\$ 5,353,873
Payments to employees	(227,438)	(319,847)	(583,682)	(1,130,967)
Payments to suppliers	(447,443)	(1,110,770)	(933,508)	(2,491,721)
Net cash provided by (used in) operating activities	<u>47,947</u>	<u>117,220</u>	<u>1,566,018</u>	<u>1,731,185</u>
Cash flows from non-capital financing activities				
Transfers in	-	-	-	-
Transfers out	(80,000)	(85,000)	(80,000)	(245,000)
Net cash provided by (used in) non-capital financing activities	<u>(80,000)</u>	<u>(85,000)</u>	<u>(80,000)</u>	<u>(245,000)</u>
Cash flows from capital and related financing activities				
Interest paid	(2,791)	-	(744,583)	(747,374)
Principal paid on long-term debt	(113,571)	-	(455,000)	(568,571)
Acquisitions of capital assets	-	-	(515,889)	(515,889)
Net cash provided by (used in) capital and related financing activities	<u>(116,362)</u>	<u>-</u>	<u>(1,715,472)</u>	<u>(1,831,834)</u>
Cash flows from investing activities				
Interest income	11,796	6,668	77,957	96,421
Net cash provided by (used in) investing activities	<u>11,796</u>	<u>6,668</u>	<u>77,957</u>	<u>96,421</u>
Net increase (decrease) in cash and pooled investments	<u>(136,619)</u>	<u>38,888</u>	<u>(151,497)</u>	<u>(249,228)</u>
Cash and pooled investments, beginning of year	<u>416,460</u>	<u>196,400</u>	<u>3,161,315</u>	<u>3,774,175</u>
Cash and pooled investments, end of year	<u>\$ 279,841</u>	<u>\$ 235,288</u>	<u>\$ 3,009,818</u>	<u>\$ 3,524,947</u>
Cash flows from operating activities				
Operating income (loss)	\$ (403,331)	\$ 133,030	\$ 595,000	\$ 324,699
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	74,754	31,746	811,632	918,132
Change in operating assets and liabilities				
which provided (used) cash				
Accounts receivable	24,278	(30,905)	21,983	15,356
Due from other funds	12,167	(2,948)	-	9,219
Inventory	-	(33,219)	(22,990)	(56,209)
Accounts payable	102,095	5,157	234,684	341,936
Accrued liabilities	(932)	2,141	13,261	14,470
Accrued compensated absences	739	4,331	(11,803)	(6,733)
Accrued other post employment benefits	29,430	32,799	44,334	106,563
Due to other funds	208,747	(24,912)	(120,083)	63,752
Net cash provided by (used in) operating activities	<u>\$ 47,947</u>	<u>\$ 117,220</u>	<u>\$ 1,566,018</u>	<u>\$ 1,731,185</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

FIDUCIARY FUNDS STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Private Purpose Trust Fund - John Hendrick Flower Fund	Agency Funds
Assets		
Cash and pooled investments	\$ -	\$ 569,426
Due from other funds	3,030	1,017,114
Due from other governments	-	7,657
	<u>-</u>	<u>7,657</u>
Total assets	<u>\$ 3,030</u>	<u>\$ 1,594,197</u>
Liabilities		
Accounts payable	\$ -	\$ 27,127
Checks drawn in excess of bank balance	-	449,250
Due to other funds	-	153,527
Due to other governments	-	964,293
	<u>-</u>	<u>964,293</u>
Total liabilities	<u>-</u>	<u>\$ 1,594,197</u>
Net assets	<u>\$ 3,030</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

***PRIVATE PURPOSE TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS***

FOR THE YEAR ENDED DECEMBER 31, 2008

	Private Purpose Trust Fund - John Hendrick Flower Fund
Additions	
Interest earnings	\$ -
Deductions	
Fees	<u>47</u>
Changes in net assets	(47)
Net assets, beginning of year	<u>3,077</u>
Net assets, end of year	<u>\$ 3,030</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskegon Heights, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities with which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. A separate section of the Basic Financial Statements provides detailed financial information on the discretely presented component units. The City has no blended component units.

Discretely Presented Component Units

The component unit column in the basic financial statements includes the financial data of the Downtown Development Authority (DDA). This entity is reported in a separate column and rows to emphasize that it is legally separate from the City. The City also has one additional component unit which had no financial assets or financial activity during the year (the Brownfield Redevelopment Authority). The DDA was formed to complete various projects in the downtown district. Funding for these projects will be provided through captured property taxes from various units of government. The members of the governing boards of the DDA are appointed by the City Council. The budgets of these Authorities must be approved by the City Council, and the City has the ability to significantly influence their operations. Financial statements are not separately issued for the component DDA.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement-based grants, income taxes, fees, interest and other revenues use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, reimbursement-based grants, income taxes, state revenue, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

The *Water Supply Enterprise Fund* is used to account for operations of the City water treatment plant and related assets utilized to treat and distribute water to the City and surrounding communities on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than perpetual trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs of governmental funds.

The *Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of City capital projects.

The *Private Purpose Trust Fund* is used to account for resources that are restricted for the benefit of other governments, organizations or individual.

The *Agency Fund* is used to account for the collection and disbursement of property taxes that are collected on behalf of outside governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General Fund. Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budget of the department needs of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within a department subject to the condition that the total expenditures do not exceed the approved appropriations by department. Thus the legal level of budgetary control is at the department level. Supplemental appropriations were necessary during the year.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal of these balances at any time similar to a demand deposit account.

Investments

Investments are stated at fair value at the balance sheet date.

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- g. External investment pools as authorized by Public Act 20 as amended.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At year end allowances for uncollectible balances of \$49,590 and \$108,653 were recorded in the sewer and water enterprise funds respectively.

Due to and Due from Other Funds

Interfund receivables and payables are short term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include land, construction in progress, buildings and equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	7-50
Equipment	5-40
Motor vehicles	5-25
Infrastructure	5-100

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Deferred Revenue

Funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the fund statements were as follows:

General Fund	
Property taxes (Levied for 2007)	\$1,222,247
Nonmajor Funds	
Special assessments	168,601
Unavailable receivables	30,514
Unexpended program revenue	<u>24,839</u>
Total governmental funds	1,446,201
Component Unit	
Downtown Development Authority	
Property taxes (Captured for 2007)	<u>177,555</u>
	<u>\$1,623,756</u>

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Compensated Absences

Under contracts negotiated with employee groups, individual employees may have a vested right to receive payments for unused vacation and sick time benefits under formulas and conditions specified in the contracts. Accumulated vacation and sick time benefits of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of other taxing units within the City limits. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue for one half of the levy in the current year and the balance is recognized in the following year.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

2. DEFICIT FUND BALANCE/NET ASSETS

At December 31, 2008 the City had the following deficit fund balances:

General fund	\$461,725
Nonmajor funds	
Local Streets fund	145,798
Cemetery fund	6,019
Recreation fund	64,454

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended December 31, 2008, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Expended</u>
General fund			
General government			
Mayor	\$ 7,800	\$ 8,050	\$ 250
Assessor	155,500	173,204	17,704
City Attorney	106,000	115,848	9,848
Public safety			
Fire	1,119,000	1,126,499	7,499
Inspections	288,000	297,718	9,718
Public works and streets			
Public works	116,000	192,410	76,410
Culture and recreation			
Library	18,000	18,022	22
Mona Lake boat launch	-	950	950
Debt Service			
Principal	73,488	91,346	17,858
Interest and fiscal charges	2,380	52,705	50,325
Nonmajor funds			
Cemetery			
General government	163,056	164,377	1,321
Recreation			
Recreation	115,000	116,090	1,090
Brownfield Redevelopment			
Community development	-	7,692	7,692
Cities of Promise			
Community development	-	87,803	87,803

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

4. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$4,426,027	\$310,480	\$569,426	\$5,305,933
Checks drawn in excess of bank balance	-	-	(449,250)	(449,250)
	<u>\$4,426,027</u>	<u>\$310,480</u>	<u>\$ 120,176</u>	<u>\$4,856,683</u>

Cash and pooled investments and investments captions consist of the following at December 31, 2008:

Deposits and certificates of deposit	\$ 990,180
Mutual funds and securities	<u>3,866,503</u>
Total	<u>\$4,856,683</u>

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, none of the City's bank balance of \$769,804 was exposed to custodial credit risk.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
FNMA	12/18/17	\$ 124.063	AAA	S&P
Fannie Mae	11/20/20	100.094	AAA	S&P
FNMA pool	3/1/25	6.436	Unrated	
Freddie Mac	7/30/18	150.047	AAA	S&P
Freddie Mac	3/15/19	100.034	AAA	S&P
Fannie Mae	1/16/20	99.938	AAA	S&P
Fannie Mae	8/6/15	100.125	AAA	S&P
Fannie Mae	9/24/20	100.094	AAA	S&P
US Treasury Note	3/15/10	25.962		
US Treasury Note	1/15/11	26.696		
US Treasury Note	2/28/11	26.851		
US Treasury Note	5/15/09	25.322		
US Treasury Note	10/31/12	27.164		
Mutual fund accounts				
Allegiant Government Money Market	N/A	25.909	Unrated	
Comerica Govt Cash Investment Fund J	N/A	2 595.011	Unrated	
Government taxable fund	N/A	332.757	Unrated	
		<u>\$3,866,503</u>		

The above investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$912,826 of investments, the City has a custodial credit risk of \$912,826 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of individual funds at December 31, 2008 were as follows:

<u>Receivable fund</u>	<u>Payable fund</u>					<u>Total</u>
	<u>General</u>	<u>Sewer</u>	<u>Water Supply</u>	<u>Fiduciary</u>	<u>Non-major governmental funds</u>	
General fund	\$ -	\$ -	\$ -	\$53,795	\$ -	\$ 53,795
Water	19,212	-	-	-	-	19,212
Fiduciary	541,297	221,801	94,014	99,732	63,300	1,020,144
Non-major governmental funds	38,812	-	-	-	289,683	328,495
Total	\$599,321	\$221,801	\$94,014	\$153,527	\$352,983	\$1,421,646

Interfund balances primarily reflect loans made from funds with cash and pooled investments to those funds requiring temporary cash flow.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended December 31, 2008 are as follows:

<u>Transfer out</u>	<u>Transfer in</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-major governmental funds</u>	
General Fund	\$ -	\$255,101	\$255,101
Enterprise			
Sewer	80,000	-	80,000
Water	85,000	-	85,000
Water Supply	80,000	-	80,000
Non-major Governmental funds	14,613	283,664	298,277
Total	\$259,613	\$538,765	\$798,378

Transfers to the general fund represent payments to fund administrative costs from benefiting funds while transfers into other funds are generally operations subsidies.

A transfer of \$121,219 was made from the Downtown Development Authority (DDA) general fund to the DDA debt service fund to assist with payment of long-term debt.

7. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2008</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 254,408	\$ -	\$ -	\$ 254,408
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	254,408	-	-	254,408
Capital assets, being depreciated				
Buildings and improvements	2,111,555	102,956	-	2,214,511
Equipment	1,338,066	-	-	1,338,066
Motor vehicles	2,116,578	76,828	93,343	2,100,063
Infrastructure	18,639,892	-	-	18,639,892
Total capital assets, being depreciated	24,206,091	179,784	93,343	24,292,532
Less accumulated depreciation for				
Buildings and improvements	671,396	82,043	-	753,439
Equipment	645,877	81,232	-	727,109
Motor vehicles	1,261,190	109,755	93,343	1,277,602
Infrastructure	13,118,184	891,045	-	14,009,229
Total accumulated depreciation	15,696,647	1,164,075	93,343	16,767,379
Net capital assets, being depreciated	8,509,444	(984,291)	-	7,525,153
Governmental Activities capital assets, net	\$8,763,852	\$(984,291)	\$ -	\$ 7,779,561

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
Total capital assets, not being depreciated	40,012	-	-	40,012
Capital assets being depreciated				
Buildings and improvements	163,471	-	-	163,471
Equipment	1,422,484	20,461	-	1,442,945
Plant	20,932,530	495,428	-	21,427,958
Infrastructure	9,204,884	-	-	9,204,884
Total capital assets, being depreciated	31,723,369	515,889	-	32,239,258
Less accumulated depreciation for				
Buildings and improvements	41,626	6,145	-	47,771
Equipment	850,696	69,018	-	919,714
Plant	3,518,531	721,803	-	4,240,334
Infrastructure	6,487,247	121,165	-	6,608,412
Total accumulated depreciation	10,898,100	918,131	-	11,816,231
Net capital assets, being depreciated	20,825,269	(402,242)	-	20,423,027
Business-type Activities capital assets, net	\$20,865,281	\$ (402,242)	\$ -	\$20,463,039
Downtown Development Authority				
Capital assets, not being depreciated				
Land	\$294,635	\$ -	\$ -	\$294,635
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	294,635	-	-	294,635
Capital assets being depreciated				
Buildings and improvements	753,835	-	-	753,835
Accumulated depreciation	192,897	21,408	-	214,305
Net capital assets, being depreciated	560,938	(21,408)	-	539,530
Business-type Activities capital assets, net	\$855,573	\$ (21,408)	\$ -	\$834,165

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 29,102
Public safety	81,485
Public works and streets	1,030,207
Culture and recreation	23,281
Total depreciation expense - governmental activities	\$1,164,075
Business-type Activities	
Sewer	\$ 74,754
Water	31,746
Water supply	811,631
Total depreciation expense - business-type activities	\$918,131

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

8. PENSION PLANS

Defined Benefit Plan

Plan Description

The various bargaining and non-bargaining unit employees of the City participate in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined rate, which for the current year was 0% to 15.63% of annual covered payroll. Participating employees are required to contribute from 3 to 6% percent of gross wages to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

For the year ended December 31, 2008, the City's annual pension cost of MERS was \$394,626. Payments to MERS during the year of \$89,925 were made which was less than the actuarial determined contributions requirement. The resulting net pension obligation is expected to be paid in fiscal year 2009 and has been recorded as a liability in the various funds. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus from 0 to 8.4% percent based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period as the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, the date of the latest actuarial valuation, was 28 years.

The required schedule of funding progress immediately following the notes to the financial statements presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
12/31/06	\$326,831	100%	-
12/31/07	338,575	100%	-
12/31/08	394,626	22%	304,701

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/08	\$27,341,463	\$30,619,746	\$3,278,283	89%	\$3,449,680	95%

9. POST EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health insurance premiums for retirees and their spouse until death. The rate paid for a surviving spouse is capped at the 1992 rate of \$190 per month. Benefit provisions are established through negotiations between the City and bargaining units and employee groups. The City makes 100% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

The City's contribution is based on pay-as-you-go financing requirements. For the current year the annual required contribution (ARC) was \$824,120 while actual contributions were \$320,451.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The first actuarial valuation of the Retiree Health Plan was performed as of December 30, 2008 with the requirements of GASB Statement #45 being implemented prospectively. Fiscal year 2008 is the first year for which an actuarially required contribution (ARC) has been determined. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City OPEB obligation to the plan.

Annual required contribution	\$ 824,120
Interest on Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	824,120
Contribution made	320,451
Increase in net OPEB obligation	503,669
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 503,669

Three-Year Trend Information			
Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
12/31/08	\$824,120	39%	\$503,669

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Schedule of Funding Progress

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	\$ -	\$503,669	\$503,669	0%	\$2,586,996	19%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The City is currently funding the plan on a pay as you go basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the December 31, 2008, actuarial valuation, the projected unit credit actuarial cost method, level dollar, closed amortization method, and an amortization period of 30 years were utilized. The actuarial assumptions included a 0% return on plan net assets as the plan is not funded, a discount rate of 4%, and healthcare inflation factor from 10% graded down to 5% over five years.

10. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended December 31, 2008:

	Balance January 31, 2008	Additions	Deletions	Balance December 31, 2008	Due Within One Year
Governmental Activities					
2004 Michigan Municipal Bond Authority, Fiscal Stabilization Bonds, due in varying installments of \$170,000 to \$210,000 through November 2013; plus interest at 2.5% to 4%	\$1,115,000	\$ -	\$175,000	\$980,000	\$185,000
1997C Michigan Municipal Bond Authority, Advanced Refunding of Series 1991C, Group B of 1991 bonds, due in varying installments of \$20,000 to \$75,000 through November 2020; plus interest at 7.2%	600,000	-	25,000	575,000	30,000

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Balance January 31, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
Computer equipment installment purchase due in semi-annual installments of \$4,982 including interest at 3.75% through March 2008	4,862	-	4,862	-	-
Telephone equipment installment purchase due in monthly installments of \$1,014 including interest at 4.25% through April 2008	4,007	-	4,007	-	-
Equipment installment purchase due in quarterly installments of \$936 including interest at 6.25% through September 2008	2,687	-	2,687	-	-
Street sweeper installment purchase due in quarterly installments of \$4,673 including interest at 6.94% through March 2009	22,185	-	18,691	3,494	3,494
Police Vehicle purchase due in semi-annual installments of \$4,982 including interest at 5.8% through March 2009	34,883	-	24,450	10,433	10,433
2007 Police Vehicle purchase due in semi-annual installments of \$5,471 including interest at 6.9% through January 2010	45,244	-	21,882	23,362	17,623
Mower equipment installment purchase due in monthly installments of \$723 including interest at 5.8% through September 2011	29,192	-	6,541	22,651	7,583
2007 Michigan Municipal Bond Authority Energy Conservation Installment Purchase due in monthly installments of \$32,721 to \$64,784 including interest at 4.7% through November 2, 2022	960,348	-	20,096	940,252	24,372
2007 Brownfield Redevelopment Grant Project due in monthly installments of \$100,174 through October 20, 2021 plus interest at 2.0%	131,670	26,634	-	158,304	-

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Balance January 31, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
Trackless Vehicle installment purchase due in monthly installments of \$1,073 including interest at 4.65% through December 2014	-	76,828	9,508	67,320	9,960
Other post employment benefits	-	397,106	-	397,106	-
Accrued employee benefits	402,406	326,874	365,567	363,713	192,912
Total Governmental Activities	\$3,392,484	\$827,442	\$678,291	\$3,541,635	\$481,377
Business-type Activities					
2000 Water Supply System revenue bonds due in annual installments of \$310,000 to \$720,000 through November 2030, plus interest from 5.2% to 6%	\$1,170,000	\$ -	\$370,000	\$ 800,000	\$390,000
2005 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030, plus interest from 3.3% to 4.5%	6,735,000	-	40,000	6,695,000	45,000
2006 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030, plus interest from 3.3% to 4.5%	9,540,000	-	45,000	9,495,000	50,000
1996 Muskegon County Wastewater Management System Bond Refunding Contractual Agreement due annually, plus interest at 5.7%.	113,571	-	113,571	-	-
Other post employment benefits	-	106,563	-	106,563	-
Accrued employee benefits	45,544	48,562	55,295	38,811	28,264
Total Business-type Activities	\$17,604,115	\$155,125	\$623,866	\$17,135,374	\$513,264

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Component Unit

Downtown Development Authority

1994 Downtown Development limited tax

obligation bonds due in annual

installments of \$50,000 to \$125,000

through May; interest at 7% to 7.25%

\$535,000 \$ - \$ 85,000 \$450,000 \$100,000

Mortgage note due in monthly

installments of \$2,736 including interest at

7.95% through February 2011

91,542 - 24,204 67,338 28,622

Total Component Unit Activities

\$626,542 - \$109,204 \$517,338 \$128,622

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of December 31, 2008 are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 288,826	\$120,933	\$ 485,000	\$ 718,226	\$128,622	\$33,132
2010	272,871	109,979	505,000	694,427	131,016	23,538
2011	382,192	99,553	530,000	669,406	132,700	13,650
2012	344,109	106,306	550,000	649,126	125,000	4,532
2013	307,446	76,490	575,000	514,866	-	-
2014-2018	606,891	225,595	3,270,000	2,741,314	-	-
2019-2023	578,481	60,222	3,980,000	2,028,908	-	-
2024-2028	-	-	4,850,000	1,142,986	-	-
2029-2030	-	-	2,245,000	152,550	-	-
Total	\$2,780,816	\$799,078	\$16,990,000	\$9,311,809	\$517,338	\$74,852

The City pays the County of Muskegon for operating and debt service costs related to wastewater treatment activities based on the City's flow into the County wastewater treatment system. The City has not record a liability for any portion of the County wastewater treatment system debt.

During the current and prior years, advance refunding resulted in a defeasance of bonds. As a result, the irrevocable trust escrow account assets and the related liability for the defeased bonds are not included in the City's financial statements. At year end, \$15,190,000 of bonds outstanding are considered defeased.

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. The City also purchases health and other insurance for employees. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF MUSKEGON HEIGHTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

12. CONTINGENCIES

The City is delinquent in the remittance of employee and employer components of payroll costs to applicable government agencies and benefit providers. These payroll costs were recorded as expenditures/expenses and liabilities in the governmental, enterprise and agency funds as applicable. The balance of penalties and interest at year end is unknown and has not been recorded on the financial statements.

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

13. RESTATEMENT

Beginning net assets in the sewer fund and business-type activities was increased by \$35,267 to appropriately recognize accounts payable at December 31, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MUSKEGON HEIGHTS

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes				
Property	\$ 2,235,000	\$ 2,589,473	\$ 2,460,573	\$ (128,900)
Income	-	-	991,216	991,216
Intergovernmental revenues				
Federal	69,453	52,897	-	(52,897)
State	1,925,022	1,918,488	1,887,114	(31,374)
Other	48,000	48,000	48,000	-
Licenses and permits	99,300	104,324	120,202	15,878
Charges for services	460,500	597,593	594,414	(3,179)
Fines	45,000	45,000	60,843	15,843
Interest earnings	9,000	9,000	9,960	960
Miscellaneous	197,250	147,820	238,582	90,762
Total revenues	<u>5,088,525</u>	<u>5,512,595</u>	<u>6,410,904</u>	<u>898,309</u>
Expenditures				
Current				
General government	1,883,827	2,287,462	2,013,376	274,086
Public safety	3,354,915	3,680,700	3,696,822	(16,122)
Public works	727,500	894,100	951,721	(57,621)
Community development	23,703	12,650	12,254	396
Culture and recreation	154,581	152,437	147,793	4,644
Debt service				
Principal	73,488	73,488	91,346	(17,858)
Interest	2,380	2,380	52,705	(50,325)
Total expenditures	<u>6,220,394</u>	<u>7,103,217</u>	<u>6,966,017</u>	<u>137,200</u>
Revenues over (under) expenditures	<u>(1,131,869)</u>	<u>(1,590,622)</u>	<u>(555,113)</u>	<u>761,109</u>
Other financing sources (uses)				
Issuance of debt	-	-	76,828	76,828
Sale of capital assets	-	-	2,656	2,656
Transfers in	1,230,200	1,230,200	259,613	(970,587)
Transfers out	(83,000)	(83,000)	(255,101)	(172,101)
Total other financing sources (uses)	<u>1,147,200</u>	<u>1,147,200</u>	<u>83,996</u>	<u>(1,063,204)</u>
Net changes in fund balance	<u>15,331</u>	<u>(443,422)</u>	<u>(471,117)</u>	<u>(27,695)</u>
Fund balance, beginning of year	<u>9,392</u>	<u>9,392</u>	<u>9,392</u>	<u>-</u>
Fund balance, end of year	<u>\$ 24,723</u>	<u>\$ (434,030)</u>	<u>\$ (461,725)</u>	<u>\$ (27,695)</u>

CITY OF MUSKEGON HEIGHTS

REQUIRED SUPPLEMENTARY INFORMATION

MERS DEFINED BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2006	\$ 26,973,198	\$ 29,892,734	\$ 2,919,536	90.23%	\$ 3,547,340	82.30%
12/31/2007	27,584,351	30,143,833	\$ 2,559,482	91.51%	3,547,340	72.15%
12/31/2008	27,341,463	30,619,746	\$ 3,278,283	89.29%	3,449,680	95.03%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF MUSKEGON HEIGHTS

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2008

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Expenditures				
Current				
General government				
City Council	\$ 40,507	\$ 31,500	\$ 30,040	\$ 1,460
Mayor	15,064	7,800	8,050	(250)
City Manager	155,235	130,000	118,027	11,973
Personnel	22,900	66,000	64,539	1,461
Elections	13,700	18,500	18,387	113
Income Tax	61,124	95,250	88,919	6,331
Assessor	138,418	155,500	173,204	(17,704)
City Attorney	100,000	106,000	115,848	(9,848)
City Clerk	75,695	73,000	69,996	3,004
Finance	151,770	143,000	136,484	6,516
Treasurer	55,429	59,600	57,662	1,938
Data Processing	9,000	7,000	6,146	854
Buildings and Grounds	178,649	307,000	297,522	9,478
Motor Pool	65,000	94,000	92,904	1,096
Other general government	801,336	993,312	735,648	257,664
	<u>1,883,827</u>	<u>2,287,462</u>	<u>2,013,376</u>	<u>274,086</u>
Public safety				
Police	1,980,034	2,155,000	2,154,924	76
Auto theft grant	112,820	118,700	117,681	1,019
Fire	1,009,238	1,119,000	1,126,499	(7,499)
Inspections	252,823	288,000	297,718	(9,718)
	<u>3,354,915</u>	<u>3,680,700</u>	<u>3,696,822</u>	<u>(16,122)</u>
Public works				
Public works	64,500	116,000	192,410	(76,410)
Street lighting	153,000	200,000	183,052	15,948
Traffic	-	3,100	2,804	296
Refuse collection	510,000	575,000	573,455	1,545
	<u>727,500</u>	<u>894,100</u>	<u>951,721</u>	<u>(57,621)</u>
Community development				
Farmer's market	3,000	1,150	1,129	21
Planning	20,703	11,500	11,125	375
	<u>23,703</u>	<u>12,650</u>	<u>12,254</u>	<u>396</u>
Culture and recreation				
Parks	143,394	134,000	128,384	5,616
Library	11,187	18,000	18,022	(22)
Festival in the park	-	437	437	-
Mona Lake boat launch	-	-	950	(950)
	<u>154,581</u>	<u>152,437</u>	<u>147,793</u>	<u>4,644</u>
Debt service				
Principal	73,488	73,488	91,346	(17,858)
Interest and fiscal charges	2,380	2,380	52,705	(50,325)
	<u>75,868</u>	<u>75,868</u>	<u>144,051</u>	<u>(68,183)</u>
Total expenditures	<u>\$ 6,220,394</u>	<u>\$ 7,103,217</u>	<u>\$ 6,966,017</u>	<u>\$ 137,200</u>

CITY OF MUSKEGON HEIGHTS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

DECEMBER 31, 2008

	Special Revenue				
	Major Streets	Local Streets	Community Development Block Grant	MSHDA	Brownfield Redevelopment Grant
Assets					
Cash and pooled investments	\$ 35,137	\$ 2,795	\$ 2	\$ 4,656	\$ -
Receivables					
Accounts	-	-	-	-	-
Special assessments	168,601	-	-	-	-
Due from other funds	114,551	27,499	97,942	-	-
Due from other governments	<u>85,919</u>	<u>31,503</u>	<u>134,212</u>	<u>30,417</u>	<u>7,692</u>
Total assets	<u>\$ 404,208</u>	<u>\$ 61,797</u>	<u>\$ 232,156</u>	<u>\$ 35,073</u>	<u>\$ 7,692</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 28,279	\$ 10,729	\$ 151,704	\$ -	\$ 7,692
Accrued liabilities	7,375	3,885	5,182	-	-
Due to other funds	-	192,981	50,431	34,835	-
Due to other governments	-	-	-	-	-
Deferred revenue	<u>168,601</u>	<u>-</u>	<u>24,839</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>204,255</u>	<u>207,595</u>	<u>232,156</u>	<u>34,835</u>	<u>7,692</u>
Fund balances					
Unreserved					
Undesignated	<u>199,953</u>	<u>(145,798)</u>	<u>-</u>	<u>238</u>	<u>-</u>
Total fund balances (deficit)	<u>199,953</u>	<u>(145,798)</u>	<u>-</u>	<u>238</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 404,208</u>	<u>\$ 61,797</u>	<u>\$ 232,156</u>	<u>\$ 35,073</u>	<u>\$ 7,692</u>

<u>Cities of Promise</u>	<u>Cemetery</u>	<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>Brownfield Project</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 372,286	\$ -	\$ 735	\$ 1,291	\$ 416,902
-	27,433	750	3,081	-	-	-	31,264
-	-	-	-	-	-	-	168,601
-	5,070	-	11,145	20,986	48,245	3,057	328,495
<u>46,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,820</u>
<u>\$ 46,077</u>	<u>\$ 32,503</u>	<u>\$ 750</u>	<u>\$ 386,512</u>	<u>\$ 20,986</u>	<u>\$ 48,980</u>	<u>\$ 4,348</u>	<u>\$ 1,281,082</u>
\$ 34,720	\$ 10,139	\$ 790	\$ -	\$ -	\$ 27,403	\$ -	\$ 271,456
-	950	1,035	-	-	-	-	18,427
11,357	-	63,379	-	-	-	-	352,983
-	-	-	418	-	-	-	418
<u>-</u>	<u>27,433</u>	<u>-</u>	<u>3,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>223,954</u>
<u>46,077</u>	<u>38,522</u>	<u>65,204</u>	<u>3,499</u>	<u>-</u>	<u>27,403</u>	<u>-</u>	<u>867,238</u>
-	(6,019)	(64,454)	383,013	20,986	21,577	4,348	413,844
-	(6,019)	(64,454)	383,013	20,986	21,577	4,348	413,844
<u>\$ 46,077</u>	<u>\$ 32,503</u>	<u>\$ 750</u>	<u>\$ 386,512</u>	<u>\$ 20,986</u>	<u>\$ 48,980</u>	<u>\$ 4,348</u>	<u>\$ 1,281,082</u>

CITY OF MUSKEGON HEIGHTS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2008

	Special Revenue				
	Major Streets	Local Streets	Community Development Block Grant	MSHDA	Brownfield Redevelopment Grant
Revenues					
Intergovernmental revenues					
Federal	\$ -	\$ -	\$ 622,446	\$ -	\$ -
State	585,295	214,514	-	30,417	7,692
Charges for services	-	-	-	-	-
Fines	-	-	-	-	-
Interest earnings	1,323	11	-	5	-
Miscellaneous	<u>27,251</u>	<u>1,198</u>	<u>28,455</u>	<u>398</u>	<u>-</u>
Total revenues	<u>613,869</u>	<u>215,723</u>	<u>650,901</u>	<u>30,820</u>	<u>7,692</u>
Expenditures					
Current					
General government	-	-	-	-	-
Public works and streets	582,924	389,669	-	-	-
Community development	-	-	620,901	30,582	7,692
Culture and recreation	-	-	-	-	-
Debt Service					
Principal	18,691	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>601,615</u>	<u>389,669</u>	<u>620,901</u>	<u>30,582</u>	<u>7,692</u>
Revenues over (under) expenditures	<u>12,254</u>	<u>(173,946)</u>	<u>30,000</u>	<u>238</u>	<u>-</u>
Other financing sources (uses)					
Issuance of loans	-	-	-	-	-
Transfers in	-	60,000	-	-	-
Transfers out	<u>(60,000)</u>	<u>(36,737)</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(60,000)</u>	<u>23,263</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>(47,746)</u>	<u>(150,683)</u>	<u>-</u>	<u>238</u>	<u>-</u>
Fund balances (deficit), beginning of year, as restated	<u>247,699</u>	<u>4,885</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ 199,953</u>	<u>\$ (145,798)</u>	<u>\$ -</u>	<u>\$ 238</u>	<u>\$ -</u>

<u>Cities of Promise</u>	<u>Cemetery</u>	<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>Brownfield Project</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 622,446
73,130	-	-	-	-	-	-	91,048
-	95,989	72,171	2,151	-	-	-	170,311
-	14	-	-	-	-	-	14
-	789	-	29,784	-	1	2	31,915
-	13	2,060	-	-	5,350	-	64,725
<u>73,130</u>	<u>96,805</u>	<u>74,231</u>	<u>31,935</u>	<u>-</u>	<u>5,351</u>	<u>2</u>	<u>1,800,459</u>
-	168,541	-	2,056	-	5,350	-	175,947
-	-	-	-	-	-	-	972,593
73,130	-	-	-	29,197	-	-	761,502
-	-	126,377	-	-	-	-	126,377
-	2,687	-	-	-	-	200,000	221,378
-	105	-	-	-	-	77,225	77,330
<u>73,130</u>	<u>171,333</u>	<u>126,377</u>	<u>2,056</u>	<u>29,197</u>	<u>5,350</u>	<u>277,225</u>	<u>2,335,127</u>
-	(74,528)	(52,146)	29,879	(29,197)	1	(277,223)	(534,668)
-	-	-	-	26,634	-	-	26,634
-	171,540	30,000	-	-	-	277,225	538,765
-	-	-	(171,540)	-	-	-	(298,277)
-	<u>171,540</u>	<u>30,000</u>	<u>(171,540)</u>	<u>26,634</u>	<u>-</u>	<u>277,225</u>	<u>267,122</u>
-	97,012	(22,146)	(141,661)	(2,563)	1	2	(267,546)
-	(103,031)	(42,308)	524,674	23,549	21,576	4,346	581,390
<u>\$ -</u>	<u>\$ (6,019)</u>	<u>\$ (64,464)</u>	<u>\$ 383,013</u>	<u>\$ 20,986</u>	<u>\$ 21,577</u>	<u>\$ 4,348</u>	<u>\$ 413,844</u>

CITY OF MUSKEGON HEIGHTS

AGENCY FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2008

	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Woodcliffe Village</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 569,426	\$ -	\$ -	\$ 569,426
Due from other funds	23,112	994,002	-	1,017,114
Due from other governments	<u>-</u>	<u>7,657</u>	<u>-</u>	<u>7,657</u>
Total assets	<u>\$ 592,538</u>	<u>\$ 1,001,659</u>	<u>\$ -</u>	<u>\$ 1,594,197</u>
 Liabilities				
Accounts payable	\$ 20,848	\$ 6,279	\$ -	\$ 27,127
Checks drawn in excess of bank balance	-	449,250	-	449,250
Due to other funds	-	153,527	-	153,527
Due to other governments	<u>571,690</u>	<u>392,603</u>	<u>-</u>	<u>964,293</u>
Total liabilities	<u>\$ 592,538</u>	<u>\$ 1,001,659</u>	<u>\$ -</u>	<u>\$ 1,594,197</u>

CITY OF MUSKEGON HEIGHTS

DOWNTOWN DEVELOPMENT AUTHORITY COMBINING BALANCE SHEET/STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Governmental Fund Types			Adjustments	Statement of Net Assets
	General Fund	Debt Service Fund	Totals		
Assets					
Cash and pooled investments	\$ 310,480	\$ -	\$ 310,480	\$ -	\$ 310,480
Property taxes receivable	120,910	-	120,910	-	120,910
Due from other funds	-	5,631	5,631	(5,631)	-
Due from other governments	104,698	-	104,698	-	104,698
Capital assets					
Land	-	-	-	294,635	294,635
Buildings	-	-	-	753,835	753,835
Accumulated depreciation	-	-	-	(214,305)	(214,305)
Total assets	<u>\$ 536,088</u>	<u>\$ 5,631</u>	<u>\$ 541,719</u>	<u>828,534</u>	<u>1,370,253</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 14,726	\$ 338	\$ 15,064	\$ -	15,064
Accrued liabilities	3,139	-	3,139	5,421	8,560
Deferred revenue	177,555	-	177,555	-	177,555
Due to other funds	5,631	-	5,631	(5,631)	-
Due to other governments	20,989	5,293	26,282	-	26,282
Noncurrent liabilities					
Due within one year	-	-	-	128,622	128,622
Due in more than one year	-	-	-	388,716	388,716
Total liabilities	<u>222,040</u>	<u>5,631</u>	<u>227,671</u>	<u>517,128</u>	<u>744,799</u>
Fund balances					
Unreserved					
Undesignated	<u>314,048</u>	<u>-</u>	<u>314,048</u>		
Total fund balances	<u>314,048</u>	<u>-</u>	<u>314,048</u>		
Total liabilities and fund balances	<u>\$ 536,088</u>	<u>\$ 5,631</u>	<u>\$ 541,719</u>		
Net assets					
Investment in capital assets net of related debt					316,827
Unrestricted					<u>308,627</u>
Total net assets					<u>\$ 625,454</u>

CITY OF MUSKEGON HEIGHTS

DOWNTOWN DEVELOPMENT AUTHORITY COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Fund Types			Adjustments	Statement of Net Assets
	General Fund	Debt Service Fund	Totals		
Revenues					
Property taxes	\$ 367,512	\$ -	\$ 367,512	\$ -	\$ 367,512
Charges	51,640	-	51,640	-	51,640
Interest earnings	5,386	-	5,386	-	5,386
Miscellaneous	23,855	-	23,855	-	23,855
	<u>448,393</u>	<u>-</u>	<u>448,393</u>	<u>-</u>	<u>448,393</u>
Expenditures					
Current:					
General government	214,076	-	214,076	21,408	235,484
Debt Service					
Principal	24,204	85,000	109,204	(109,204)	-
Interest	8,626	36,219	44,845	(1,006)	43,839
	<u>246,906</u>	<u>121,219</u>	<u>368,125</u>	<u>(88,802)</u>	<u>279,323</u>
Total expenditures	<u>246,906</u>	<u>121,219</u>	<u>368,125</u>	<u>(88,802)</u>	<u>279,323</u>
Revenues over (under) expenditures	<u>201,487</u>	<u>(121,219)</u>	<u>80,268</u>	<u>88,802</u>	<u>169,070</u>
Other financing sources (uses)					
Transfers in	-	121,219	121,219	-	121,219
Transfers out	(121,219)	-	(121,219)	-	(121,219)
Total other financing sources (uses)	<u>(121,219)</u>	<u>121,219</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>80,268</u>	<u>-</u>	<u>80,268</u>	<u>(80,268)</u>	
Change in net assets				<u>169,070</u>	<u>169,070</u>
Fund balances/net assets, beginning of year	<u>233,780</u>	<u>-</u>	<u>233,780</u>	<u>222,604</u>	<u>456,384</u>
Fund balances/net assets, end of year	<u>\$ 314,048</u>	<u>\$ -</u>	<u>\$ 314,048</u>	<u>\$ 311,406</u>	<u>\$ 625,454</u>

SINGLE AUDIT SECTION



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 3, 2009

Honorable Mayor and Members of the City Council
City of Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan, as of and for the year ended December 31, 2008, which collectively comprise the City of Muskegon Heights' basic financial statements and have issued our report thereon dated September 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Muskegon Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Muskegon Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Muskegon Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Muskegon Heights' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Muskegon Heights' financial statements that is more than inconsequential will not be prevented or detected by the City of Muskegon Heights' internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Muskegon Heights' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Muskegon Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2008-3.

We noted certain matters that we reported to management of the City of Muskegon Heights, in a separate letter dated September 3, 2009.

The City of Muskegon Heights' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Muskegon Heights' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management: City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oradaxeld Hoefner LLC



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 3, 2009

Honorable Mayor and Members of the City Council
City of Muskegon Heights, Michigan

Compliance

We have audited the compliance of the City of Muskegon Heights, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2008. The City of Muskegon Heights' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon Heights' management. Our responsibility is to express an opinion on the City of Muskegon Heights' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon Heights' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Muskegon Heights' compliance with those requirements.

In our opinion, the City of Muskegon Heights, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-4.

Internal Control Over Compliance

The management of the City of Muskegon Heights is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon Heights' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-4 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency described above to be a material weakness.

The City of Muskegon Heights' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Muskegon Heights' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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CITY OF MUSKEGON HEIGHTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor's Number	Approved Grant Amount	Accrued (deferred) Revenue January 1, 2008	Cash Received	Year Ended Expenditures	Accrued (deferred) Revenue December 31, 2008
U.S. Department of Housing and Urban Development							
Community Development Block Grant	14.218	B-07-MC 26-0027	\$ 477,524	\$ 67,839	\$ 248,233	\$ 206,247	\$ 25,853
Community Development Block Grant	14.218	B-08-MC-26-0027	458,542	-	307,840	416,199	108,359
Program income	14.218		-	(21,017)	2,724	-	(23,741)
Total U.S. Department of Housing and Urban Development			936,066	46,822	558,797	622,446	110,471
U.S. Department of Justice							
Passed through Grand Valley State University	16.609	MSPD101	40,000	-	-	2,566	2,566
Project Safe Neighborhoods							
Less program income non federal CDBG program income			-	21,017	(2,724)	-	23,741
Total Federal Awards			\$ 976,066	\$ 67,839	\$ 556,073	\$ 625,012	\$ 136,778

Notes to Schedule of Expenditures of Federal Awards

1. This schedule is presented on the accrual basis of accounting
2. Expenditures in this schedule are in agreement with amounts reported in the financial statements

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unqualified on basic financial statements	
Internal controls over financial reporting		
Material weaknesses identified?	<u> X </u> yes	<u> </u> no
Reportable conditions identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs		
Material weaknesses identified?	<u> X </u> yes	<u> </u> no
Reportable conditions identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	<u> </u> yes	<u> X </u> no

Identification of Major Programs

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grant

Dollar threshold used to distinguish between Type A and B programs?	<u> \$300,000 </u>
Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no

SECTION II - FINANCIAL STATEMENT FINDINGS

2006-1

Conditions: The City staff has not recorded all entries necessary to prepare fund basis financial statements or the government-wide financial statements in accordance with generally accepted accounting principles.

Effect: Auditing standards require that the inability to prepare financial statements in accordance with generally accepted accounting principles be reported as a material weakness.

Recommendation: The City's system of control should be modified so that general ledger balances are reviewed and adjusted periodically to reflect balances in accordance with generally accepted accounting principles.

Management corrective action: Additional staff has been added to the Finance Department so that the Finance Director has sufficient time to account for the City's finances in accordance with generally accepted accounting principles.

CITY OF MUSKEGON HEIGHTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

2008-2

Conditions: The City does not have a process in place to prepare bank and investment account reconciliations in a timely manner.

Effect: Accurate City financial information is not always available in a timely manner.

Recommendation: The City should develop a process to provide timely reconciliation of bank and investment account balances.

Management corrective action: Management has made additional human resources available to provide for timely reconciliation of investment and bank account balances.

2008-3

Conditions: The City is not always remitting the employer and employee components of payroll costs to applicable governmental agencies and benefit providers in a timely manner.

Effect: The City is not always meeting the payment requirements of various laws and benefits agreements.

Recommendation: The City should develop and implement a plan to provide sufficient resources to allow for timely remittance of employer and employee payroll costs.

Management corrective action: The City will make necessary program changes to allow for timely remittance of employer and employee payroll costs.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-4

Conditions: The City's policy to document program compliance and internal controls over programs is not always functioning as designed. Specifically contracts are not always properly signed by all parties.

Effects: Compliance with program and City policy is not always occurring.

Recommendation: The City should develop and process to assure that all documentation is complete before allowing project to commence.

Management corrective action: The City will develop a process to assure that all documentation is completed and before allowing projects to commence.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

None noted



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September 3, 2009

Honorable Mayor and Members of the City Council
City of Muskegon Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Muskegon Heights, Michigan, for the year ended December 31, 2008. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 23, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Muskegon Heights are described in Note 1 to the financial statements. Governmental Accounting Standards Board (GASB) statements related to Other Post Employment Benefits (OPEB) were implemented during the year which resulted in additional note disclosure and a liability being reported on the financial statements for unfunded actuarial determined contribution requirements. Application of existing policies was not changed during the year. We noted no transactions entered into by the City of Muskegon Heights during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

Useful lives of capital assets, the allowance for uncollectible accounts receivable, and the valuation of the pension and other post requirement benefit plans and obligations.

Management's estimate of the useful lives and uncollectible accounts is based on previous history and the estimate of pension and other post retirement benefit plan obligations are based on an actuarial valuation of the plans. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered significant delays in the timing of the annual audit and receipt of necessary audit data. We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We identified a lengthy listing of proposed adjustments, all of which were recorded by the City of Muskegon Heights. In our judgment, the adjustments we proposed indicate matters that have a significant effect on the City of Muskegon Heights' financial reporting process. The adjustments were recorded to adjust the financial statements to be presented in accordance with generally accepted accounting principals.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Muskegon Heights' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also noted the following items:

Bank and investment account consolidation

During our audit we noted numerous bank accounts were being utilized to account for the resources of the various funds and activities of the City. This process results in multiple internal balances between funds which complicates accounting for, and reconciliation of internal balances between funds and necessitates performance of multiple monthly bank reconciliations. We suggest that the City consider pooling cash and investment balances between funds to the extent allowable under state requirements to minimize the number of

bank and investment accounts, number of monthly reconciliations, and the amount of time expended on accounting for these balances.

Audit adjustments

During our audit we noted that numerous significant adjustments to the City general ledger balances were necessary to compile accurate year-end financial statements. We believe that modification of the City's current internal control process to require periodic reconciliation of general ledger account balances and monthly review and reporting of City budget and actual information by appropriate level staff would result in more timely identification of errors and process bottlenecks.

Form 1099's

It appears the City was not obtaining a Form W-9 or completing a related form 1099 for all required vendors. In our review of the vendor list, we observed many vendors that may require a Form 1099. We recommend the Organization review the complete vendor list and request the appropriate information from them to determine if a 1099 is required.

Payroll Controls

Payroll is prepared internally after approval of timesheets takes place. We noted however that once timesheets are approved, there is no further review of payroll. It is prepared and processed by a single individual with payroll checks signed via a signature stamp by an assistant. We recommend a management level individual review and approve the completed payroll prior to issuance of payroll checks.

Signature stamps

While the use of signature stamps is convenient for those responsible for signing checks, it is imperative that the stamps be properly safeguarded. During our audit, we noted the City's policy is to keep the stamps in the safe at all times, however we noted the stamps were occasionally kept in a desk. We recommend a re-emphasis on keeping signatures stamps in the safe at all times other than when in use.

Income tax receipts

Income tax receipts are received and posted to the income tax system by the income tax clerk. The receipts are then given to the accounting clerk who posts the receipts individually to the City's accounting system and prepares the bank deposit. We noted there is never a cross check between these two systems to assure the same amount is being posted to each system. We recommend producing a receipt report from the income tax system at least weekly for comparison to the balance of income tax posted to the general ledger.

Internal communications

During the course of the audit, we make inquiries of various department heads to help us assess our audit risk. We noted not all department heads were aware of the steps and programs in place to prevent and detect fraud. We recommend the related control procedures be reviewed at an appropriate staff meeting and that the department heads communicate the same information to their staff to continually emphasize the importance of these programs and standards.

Income tax enforcement

Through our observation of controls, we noted the process for enforcement of income tax payments are significantly behind. The 2007 taxes in the enforcement process, which are received during 2008, had not yet been sent a final demand for payment notice. We recommend steps be taken to follow the City ordinance in the income tax enforcement process.

Adjusting Journal Entries

Throughout the course of each year, many accounts are adjusted using general journal entries to properly reflect the activity of the City. During our testing of these journal entries, we did not observe any evidence that they were approved by someone other than the original preparer of the entry. A good system of controls should include review and approval of all adjusting journal entries to prevent management from overriding internal control.

This information is intended solely for the use of the Council and management of the City of Muskegon Heights, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Hoefner LLC